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IMAGISTICS INTERNATIONAL INC
Form 10-Q/A
June 17, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-16449

IMAGISTICS INTERNATIONAL INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

06-1611068
(I.R.S. Employer Identification No.)

100 Oakview Drive
Trumbull, Connecticut
(Address of Principal Executive Offices)

06611
(Zip Code)

(203) 365-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Imagistics Common Stock, par value \$0.01 per share,
outstanding as of April 30, 2005: 16,335,432

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IMAGISTICS INTERNATIONAL INC.

EXPLANATORY NOTE

The Company adopted Financial Accounting Standards Board ("FASB")

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Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment" on January 1, 2005. The Company elected to adopt the modified retrospective application method as provided by SFAS No. 123(R) and accordingly, financial statement amounts for all prior periods have been restated.

This Form 10-Q/A (Amendment No. 1) amends Imagistics International Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005. The purpose for this amendment to the Company's Quarterly Report on Form 10-Q is to restate share-based compensation expense for the three months ended March 31, 2005 to correct an error in the calculation of share-based compensation expense. The error relates to the impact of the application of the non-substantive vesting condition in accordance with SFAS No. 123(R), for share-based payment awards issued to retirement eligible employees as announced in the Company's Current Report on Form 8-K, filed on June 17, 2005.

Accordingly, changes in this Form 10-Q/A amend and restate the financial information and disclosures related to Items 1 and 2 of Part I of the original Form 10-Q, only for the effects of share-based compensation expense. It also amends the previously filed Form 10-Q to include in Part 1, Item 4, "Controls and Procedures," the revised conclusion of the Chief Executive Officer and Chief Financial Officer regarding the effectiveness of the Company's disclosure controls and procedures as of March 31, 2005. All other financial information and disclosures remain unchanged.

Subsequent to the issuance of the March 31, 2005 financial statements, the Company discovered an error in the calculation of share-based compensation expense in accordance with SFAS No. 123(R) related to the recognition of share-based compensation expense for awards subject to acceleration of vesting for retirement eligible employees. Prior to the adoption of SFAS No. 123(R) on January 1, 2005, the Company accounted for share-based compensation expense under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and followed the accepted practice of recognizing share-based compensation expense over the explicit vesting period. SFAS No. 123(R) requires the immediate recognition at the grant date of the full share-based compensation expense for grants to retirement eligible employees, as the explicit vesting period is non-substantive. Upon adoption of SFAS No. 123(R) on January 1, 2005, the Company continued to follow the practice of recognizing share-based compensation expense over the explicit service period in error. The error resulted in a \$1.1 million understatement of share-based compensation expense in the quarterly period ended March 31, 2005. The effect of this restatement is to accelerate the non-cash share-based compensation expense of grants to retirement eligible employees in January 2005 to the first quarter of 2005 rather than recognizing the share-based compensation expense over the explicit three-year vesting period. As a result, income before income taxes was reduced by \$1.1 million, net income was reduced by \$0.6 million and both basic and diluted earnings per share were reduced by \$0.04 for the quarterly period ended March 31, 2005. See Note 2 of the "Notes to Consolidated Financial Statements" included in Part 1, Item 1 herein for a comparison of all restated amounts to previously filed amounts.

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IMAGISTICS INTERNATIONAL INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMAGISTICS INTERNATIONAL INC.

Consolidated Statements of Income
 (Dollars in thousands, except per share amounts)
 (Unaudited)

| | For the three months ended March 31, | |
|--|---|-----------|
| | (Restated) | |
| | 2005 | 2004 |
| Revenue: | | |
| Sales | \$ 72,860 | \$ 82,555 |
| Rentals | 47,585 | 54,411 |
| Support services | 21,676 | 21,356 |
| | 142,121 | 158,322 |
| Total revenue | | |
| Cost of sales | 42,308 | 48,946 |
| Cost of rentals | 14,231 | 15,790 |
| Selling, service and administrative expenses | 81,859 | 83,555 |
| | 3,723 | 10,031 |
| Operating income | | |
| Interest expense | 1,128 | 935 |
| | 2,595 | 9,096 |
| Income before income taxes | | |
| Provision for income taxes | 1,087 | 3,912 |
| | | |

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| | | |
|--|------------|------------|
| Net income | \$ 1,508 | \$ 5,184 |
| | ===== | ===== |
| Earnings per share: | | |
| Basic | \$ 0.09 | \$ 0.31 |
| | ===== | ===== |
| Diluted | \$ 0.09 | \$ 0.30 |
| | ===== | ===== |
| Shares used in computing earnings per share: | | |
| Basic | 16,134,324 | 16,385,689 |
| | ===== | ===== |
| Diluted | 16,577,200 | 17,111,771 |
| | ===== | ===== |

Prior period restated to include the impact of the modified retrospective application method of share-based compensation expense (see Note 2 for details).

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)
(Unaudited)

| | |
|--|--|
| | (Restated) March 31, 2005 ----- |
| Assets | |
| Current assets: | |
| Cash | \$ 13,397 |
| Accounts receivable, net of allowances of \$12,265 and \$14,991 at March 31, 2005 and December 31, 2004, respectively | 99,701 |
| Accrued billings | 30,786 |
| Inventories | 88,962 |
| Current deferred taxes on income | 22,910 |
| Other current assets and prepaid expenses | 5,992 |
| | ----- |
| Total current assets | 261,748 |
| Property, plant and equipment, net | 59,505 |
| Rental equipment, net | 60,086 |
| Goodwill | 66,305 |
| Other assets | 4,005 |
| | ----- |
| Total assets | \$ 451,649 ===== |
| Liabilities and Stockholders' Equity | |
| Current liabilities: | |
| Current portion of long-term debt | \$ 545 |
| Accounts payable and accrued liabilities | 56,862 |
| Advance billings | 14,244 |

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| | |
|--|------------|
| Total current liabilities | 71,651 |
| Long-term debt | 79,223 |
| Deferred taxes on income | 16,276 |
| Other liabilities | 1,253 |
| <hr/> | |
| Total liabilities | 168,403 |
| Commitments and contingencies (see Note 8) | |
| Stockholders' equity: | |
| Preferred stock (\$1.00 par value; 10,000,000 shares authorized, none issued) | -- |
| Common stock (\$0.01 par value; 150,000,000 shares authorized, 20,162,065 and 20,008,325 issued at March 31, 2005 and December 31, 2004, respectively) | 202 |
| Additional paid-in-capital | 320,197 |
| Retained earnings | 51,563 |
| Treasury stock, at cost (3,846,161 and 3,703,065 shares at March 31, 2005 and December 31, 2004, respectively) | (90,298) |
| Unearned compensation | (1,120) |
| Accumulated other comprehensive income | 2,702 |
| <hr/> | |
| Total stockholders' equity | 283,246 |
| <hr/> | |
| Total liabilities and stockholders' equity | \$ 451,649 |
| <hr/> | |

Prior period restated to include the impact of the modified retrospective application method of share-based compensation expense (see Note 2 for details).

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

| | For the three months ended March 31, | |
|---|---|---------|
| | (Restated) 2005 | 2004 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 1,508 | \$ 5,18 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 16,149 | 17,08 |
| Provision for bad debt | 1,983 | 2,38 |
| Provision for inventory obsolescence | 1,372 | 1,36 |
| Share-based compensation expense | 756 | 98 |
| Excess tax benefits from stock-based compensation | (556) | (53 |
| Deferred taxes on income | 3,006 | (2,95 |
| Non-cash restructuring impairment charges | 476 | - |
| Change in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 3,996 | (13,70 |

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| | | |
|---|-----------|----------|
| Accrued billings | (1,754) | (1,31) |
| Inventories | 5,566 | 1,50 |
| Other current assets and prepaid expenses | 559 | (1,02) |
| Accounts payable and accrued liabilities | (24,200) | (13,09) |
| Advance billings | (564) | (1,27) |
| Other, net | (2,347) | 96 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 5,950 | (4,42) |
| Cash flows from investing activities: | | |
| Expenditures for rental equipment assets | (9,421) | (9,77) |
| Expenditures for property, plant and equipment | (2,095) | (2,79) |
| Acquisitions, net of cash acquired | -- | (3,80) |
| | ----- | ----- |
| Net cash used in investing activities | (11,516) | (16,37) |
| Cash flows from financing activities: | | |
| Exercises of stock options, including sales under employee stock purchase plan | 1,580 | 1,05 |
| Excess tax benefits from stock-based compensation | 556 | 53 |
| Purchases of treasury stock | (4,683) | (6,27) |
| Repayments under term loan | (137) | (13) |
| Net borrowings under revolving credit facility | 9,000 | 15,00 |
| | ----- | ----- |
| Net cash provided by financing activities | 6,316 | 10,18 |
| | ----- | ----- |
| Effect of exchange rates on cash | (153) | 18 |
| Increase (decrease) in cash | 597 | (10,41) |
| Cash at beginning of period | 12,800 | 22,93 |
| | ----- | ----- |
| Cash at end of period | \$ 13,397 | \$ 12,52 |
| | ===== | ===== |

Prior period restated to include the impact of the modified retrospective application method of share-based compensation expense (see Note 2 for details).

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts and as otherwise indicated)
(Unaudited)

1. Description of the Business

Imagistics International Inc. (the "Company" or "Imagistics") is an independent direct sales, service and marketing organization offering business document imaging and management solutions, including copiers, multifunctional products, often referred to as MFPs, and facsimile machines, in the United States, Canada and United Kingdom. The Company's primary customers include large corporate and government entities and mid-size and regional businesses. MFPs offer the multiple functionality of printing, copying, scanning and faxing in a single unit. In addition, the Company offers a range of document imaging options including digital, analog, color and/or networked products and systems.

On December 11, 2000, the board of directors of Pitney Bowes Inc. ("Pitney Bowes") approved the spin-off of substantially all of the U.S. and U.K. operations of its office systems businesses to its common stockholders as an independent, publicly traded company. On December 3, 2001, Imagistics was spun

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off from Pitney Bowes pursuant to a contribution by Pitney Bowes of substantially all of Pitney Bowes' United States office systems businesses to the Company and a distribution of the stock of the Company to common stockholders of Pitney Bowes based on a distribution ratio of 1 share of Imagistics common stock for every 12.5 shares of Pitney Bowes common stock held at the close of business on November 19, 2001 (the "Distribution").

2. Summary of Significant Accounting Policies

Basis of presentation

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "SEC") and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the management of the Company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of results of operations, financial position and cash flows as of and for the periods presented have been included. Certain previously reported amounts have been reclassified to conform to the current year presentation.

The Company believes that the disclosures contained in the unaudited interim consolidated financial statements are adequate to keep the information presented from being misleading. The results for the three months ended March 31, 2005 are not necessarily indicative of the results for the full year. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2004 filed with the SEC on March 10, 2005.

Restatement of quarterly financial statements

Subsequent to the issuance of the March 31, 2005 financial statements, the Company discovered an error in the calculation of share-based compensation expense in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," related to the recognition of share-based compensation expense for awards subject to acceleration of vesting for retirement eligible employees. Prior to the adoption of SFAS No. 123(R) on January 1, 2005, the Company accounted for share-based compensation expense under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and followed the accepted practice of recognizing share-based compensation expense over the explicit vesting period. SFAS No. 123(R) requires the immediate recognition at the grant date of the full share-based compensation expense for grants to retirement eligible employees, as the explicit vesting period is non-substantive. Upon adoption of SFAS No. 123(R) on January 1, 2005, the Company continued to follow the practice of recognizing share-based compensation expense over the explicit service period in error. The error resulted in a \$1.1 million understatement of share-based compensation expense in the quarterly period ended March 31, 2005. The effect of this restatement is to accelerate the non-cash share-based compensation expense of grants to retirement eligible employees in January 2005 to the first quarter of 2005 rather than recognizing the share-based compensation expense over the explicit three-year vesting period. The restatement reflects adjustments, which are corrections of errors in the application of U.S. generally accepted accounting principles (GAAP) related to the early adoption of SFAS No. 123(R) for the non-substantive vesting period condition for retirement eligible employees.

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IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements - (continued)

The following table sets forth the effects of the restatement on the line items within the Company's previously reported consolidated financial statements for the three months ended March 31, 2005:

| | For the three months ended March 31, 2005 | |
|---|--|------------------------------|
| | Restated | As previously reported |
| Consolidated Statement of Income: | | |
| Selling, service and administrative expenses | \$ 81,859 | \$ 80,785 |
| Operating income | \$ 3,723 | \$ 4,797 |
| Income before income taxes | \$ 2,595 | \$ 3,669 |
| Provision for income taxes | \$ 1,087 | \$ 1,537 |
| Net income | \$ 1,508 | \$ 2,132 |
| Earnings per share: | | |
| Basic | \$ 0.09 | \$ 0.13 |
| Diluted | \$ 0.09 | \$ 0.13 |
| Shares used in computing earnings per share: | | |
| Diluted | 16,577,200 | 16,547,087 |
| Consolidated Balance Sheet: | | |
| Accounts payable and accrued liabilities | \$ 56,862 | \$ 57,312 |
| Total current liabilities | \$ 71,651 | \$ 72,101 |
| Total liabilities | \$ 168,403 | \$ 168,853 |
| Additional paid-in-capital | \$ 320,197 | \$ 319,983 |
| Retained earnings | \$ 51,563 | \$ 52,187 |
| Unearned compensation | \$ (1,120) | \$ (1,980) |
| Total stockholders' equity | \$ 283,246 | \$ 282,796 |
| Consolidated Statement of Cash Flows: | | |
| Net income | \$ 1,508 | \$ 2,132 |
| Depreciation and amortization | \$ 16,149 | \$ 15,289 |
| Share-based compensation expense | \$ 756 | \$ 542 |
| Accounts payable and accrued liabilities | \$ (24,200) | \$ (23,750) |

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier/MFP equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the equipment at the customer location. For facsimile equipment and facsimile

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supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the facsimile supplies to the customer location. The Company records a provision for estimated sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless the Company receives prior notice of cancellation. Under the terms of rental contracts, the Company bills its customers a flat

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IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements - (continued)

periodic charge and/or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. The Company records a provision for estimated usage adjustments on rental contracts based upon historical experience.

Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless the Company receives prior notice of cancellation. Under the terms of support services contracts, the Company bills its customers either a flat periodic charge and/or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. The Company records a provision for estimated usage adjustments on service contracts based upon historical experience.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

The Company enters into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. The Company accounts for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing of support services contracts when sold on a stand-alone basis.

Accounts receivable

Accounts receivable are stated at net realizable value by recording allowances for those accounts receivable amounts that the Company believes are uncollectible. The Company's estimate of losses is based on prior product returns and invoice adjustment experience as well as prior collection experience and includes evaluating the credit worthiness of the Company's customers, analyzing historical bad debt write-offs and reviewing the aging of the receivables. The Company's allowance for doubtful accounts includes amounts for specific accounts that it believes are uncollectible, as well as amounts that have been computed by applying certain percentages based on historic loss trends, to certain accounts receivable aging categories and estimated amounts relating to delinquencies associated with the changes in the Company's billing policies and invoice format resulting from the implementation of the Company's

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enterprise resource planning ("ERP") system.

Inventory valuation

Inventories are valued at the lower of cost or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are calculated using management's best estimates of inventory value based on the age of the inventory, quantities on hand compared with historical and projected usage and current and anticipated demands.

Rental equipment

Rental equipment is comprised of equipment on rent to customers and is depreciated on the straight-line method over the estimated useful life of the equipment. Copier/MFP equipment is depreciated over three years and facsimile equipment placed in service prior to October 1, 2003 is depreciated over five years. Facsimile equipment placed in service on or after October 1, 2003 is depreciated over three years.

Share-based employee compensation

The Company adopted SFAS No. 123(R), "Share-Based Payment" on January 1, 2005. SFAS No. 123(R) establishes the accounting for share-based compensation and requires companies to measure and recognize compensation expense for all share-based payments at fair value. Accordingly, share-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. The Company elected to adopt the modified retrospective application method as provided by SFAS No. 123(R) and financial statement amounts for all prior years for which SFAS No. 123, "Accounting for Stock-Based Compensation" was effective have been restated to give effect to the fair value-based method of accounting under SFAS No. 123(R).

IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements - (continued)

Prior to the adoption of SFAS No. 123(R), the Company accounted for its share-based employee compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

Share-based compensation expense for stock option grants was \$0.8 million and amortization of restricted share grants was \$1.1 million for the three months ended March 31, 2005. Share-based compensation expense for stock option grants was \$1.0 million and amortization of restricted share grants was \$0.4 million for the three months ended March 31, 2004. As of March 31, 2005, approximately \$2.3 million of total unrecognized compensation costs related to non-vested shares is expected to be recognized over a weighted average period of approximately three years. These costs will be recognized over a three-year period for employees that are not retirement eligible and over a shorter period for those that are or become retirement eligible within the three-year vesting period.

For the first quarter of 2004, the adoption of SFAS No. 123(R) resulted in a reduction in income before income taxes of \$1.0 million, a reduction in net income of \$0.6 million and a reduction in basic and diluted earnings per share of \$0.04.

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The following table details the retrospective application method impact of SFAS No. 123(R) on previously reported results:

| | Restated ----- | As previously reported ----- |
|--|-------------------|---------------------------------------|
| For the three months ended March 31, 2004: | | |
| Operating income | \$ 10,031 | \$ 11,019 |
| Income before income taxes | \$ 9,096 | \$ 10,084 |
| Provision for income taxes | \$ 3,912 | \$ 4,337 |
| Net income | \$ 5,184 | \$ 5,747 |
| Earnings per share: | | |
| Basic | \$ 0.31 | \$ 0.35 |
| Diluted | \$ 0.30 | \$ 0.34 |
| Net cash used in operating activities | \$ (4,420) | \$ (3,694) |
| Net cash provided by financing activities | \$ 10,187 | \$ 9,650 |
| For the year ended December 31, 2004: | | |
| Deferred taxes on income | \$ 15,188 | \$ 21,442 |
| Total liabilities | \$ 184,239 | \$ 190,493 |
| Additional paid-in-capital | \$ 315,724 | \$ 299,601 |
| Retained earnings | \$ 50,055 | \$ 59,924 |
| Total stockholders' equity | \$ 283,297 | \$ 277,043 |
| Total liabilities and stockholders' equity | \$ 467,536 | \$ 467,536 |

The Company evaluated its valuation method and assumptions in connection with SFAS No. 123(R). The Company determined that the use of a Black-Scholes valuation method was appropriate, which is consistent with the Company's pro forma disclosures under the fair value recognition provisions of SFAS No. 123. The Company believes it has used appropriate assumptions in accordance with SFAS No. 123(R) to estimate the fair value of its stock options and its employee stock purchase plan in the first quarter of 2005.

Prior to the adoption of SFAS No. 123(R) on January 1, 2005, the Company accounted for share-based compensation expense under the recognition and measurement provisions of APB No. 25, "Accounting for Stock Issued to Employees" and followed the accepted practice of recognizing share-based compensation expense over the explicit vesting period. SFAS No. 123(R) requires the immediate recognition at the grant date of the full share-based compensation expense for grants to retirement eligible employees, as the explicit vesting period is non-substantive. If the Company applied the non-substantive vesting period condition to prior periods, compensation expense for the first quarter of 2004 would have amounted to \$1.0 million compared with \$1.4 million under the recognition and measurement provisions of APB No. 25.

The following table illustrates the effect on net income and earnings per share if the Company had applied the non-substantive vesting condition requirements of SFAS No. 123(R) for the period ended March 31, 2004:

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| | For the three months ended March 31, 2004 ----- |
|--|---|
| Net income, as reported | \$ 5,184 |
| Add: Stock-based compensation expense included in net income, net of related tax effects | 815 |
| Deduct: Total stock-based compensation expense based on the non-substantive vesting condition, net of related tax effects | \$ (587) ----- |
| Pro forma net income | \$ 5,412 ===== |
| Basic earnings per share: | |
| As reported | \$ 0.31 |
| Pro forma | \$ 0.33 |
| Diluted earnings per share: | |
| As reported | \$ 0.30 |
| Pro forma | \$ 0.32 |

The following table summarizes the Company's stock options outstanding and exercisable as of March 31, 2005:

| Exercise Price | Options outstanding | | | | Options exercisable | |
|-------------------|---------------------|-----------------------------------|---------------------------------|---------------------------|---------------------|-----------------------------------|
| | Shares | Weighted average contractual term | Weighted average exercise price | Aggregate intrinsic value | Shares | Weighted average contractual term |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| \$6.89 - \$13.46 | 90,261 | 4 | \$ 9.92 | \$ 2,257,468 | 90,261 | 7 |
| \$13.85 - \$18.91 | 901,663 | 7 | \$ 14.19 | 18,704,845 | 884,722 | 7 |
| \$19.48 - \$28.81 | 234,104 | 8 | \$ 19.92 | 3,514,511 | 128,892 | 8 |
| \$32.25 - \$46.13 | 278,109 | 7 | \$ 33.36 | 566,033 | 7,777 | 9 |
| | ----- | | | ----- | ----- | |
| | 1,504,137 | 7 | \$ 18.37 | \$25,042,857 | 1,111,652 | 8 |
| | ===== | | | ===== | ===== | |

3. Supplemental Information

Inventories

Inventories consisted of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 ----- | December 31, 2004 ----- |
|----------------------------|----------------------------|-------------------------------|
| Finished products | \$ 48,914 | \$ 52,960 |
| Supplies and service parts | 40,048 | 41,787 |
| | ----- | ----- |

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| | | |
|-------------------|-----------|-----------|
| Total inventories | \$ 88,962 | \$ 94,747 |
| | ===== | ===== |

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IMAGISTICS INTERNATIONAL INC.
Notes to Consolidated Financial Statements - (continued)

Fixed assets and rental equipment assets

Fixed assets and rental equipment assets consisted of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|--------------------------------------|-------------------|----------------------|
| | ----- | ----- |
| Land | \$ 1,356 | \$ 1,356 |
| Buildings and leasehold improvements | 12,013 | 12,282 |
| Machinery and equipment | 26,734 | 26,679 |
| Computers and software | 62,799 | 61,007 |
| | ----- | ----- |
| Property, plant and equipment, gross | 102,902 | 101,324 |
| Accumulated depreciation | (43,397) | (40,998) |
| | ----- | ----- |
| Property, plant and equipment, net | \$ 59,505 | \$ 60,326 |
| | ===== | ===== |
| | | |
| Rental equipment, gross | \$ 296,579 | \$ 304,005 |
| Accumulated depreciation | (236,493) | (241,181) |
| | ----- | ----- |
| Rental equipment, net | \$ 60,086 | \$ 62,824 |
| | ===== | ===== |

Depreciation and amortization expense was \$15.0 million and \$16.7 million for the three months ended March 31, 2005 and 2004, respectively. Unamortized software costs totaled \$34.3 million as of March 31, 2005 and \$33.5 million as of December 31, 2004. Amortization expense on account of capitalized software totaled \$0.9 million for both the three months ended March 31, 2005 and 2004.

Current liabilities

Accounts payable and accrued liabilities consisted of the following at March 31, 2005 and December 31, 2004:

| | (Restated) March 31, 2005 | December 31, 2004 |
|--|---------------------------------|----------------------|
| | ----- | ----- |
| Accounts payable | \$ 24,064 | \$ 42,118 |
| Income taxes payable | 447 | 3,682 |
| Group medical insurance payable | 3,898 | 4,844 |
| Accrued compensation and benefits | 5,888 | 8,756 |
| Other non-income taxes payable | 5,661 | 5,796 |
| Other accrued liabilities | 16,904 | 15,144 |
| | ----- | ----- |
| Accounts payable and accrued liabilities | \$ 56,862 | \$ 80,340 |
| | ===== | ===== |

Comprehensive income

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Comprehensive income consisted of the following for the three months ended March 31, 2005 and 2004:

| | For the three months ended March 31, | |
|------------------------|---|----------|
| | ----- | |
| | (Restated) 2005 | 2004 |
| | ----- | ----- |
| Net income | \$ 1,508 | \$ 5,184 |
| Translation adjustment | (870) | 357 |
| | ----- | ----- |
| Comprehensive income | \$ 638 | \$ 5,541 |
| | ===== | ===== |

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IMAGISTICS INTERNATIONAL INC.
Notes to Consolidated Financial Statements - (continued)

Treasury stock

The following table summarizes the Company's treasury stock transactions:

| | Treasury stock | |
|---|----------------|-----------|
| | Shares | Cost |
| | ----- | ----- |
| Balance at December 31, 2004 | 3,703,065 | \$ 85,620 |
| Purchases under stock buy back program | 143,364 | 4,683 |
| Sales to employees under employee stock purchase plan | (268) | (5) |
| | ----- | ----- |
| Balance at March 31, 2005 | 3,846,161 | \$ 90,298 |
| | ===== | ===== |

Cash flow information

Cash paid for income taxes was \$0.4 million and \$0.6 million for the three months ended March 31, 2005 and 2004, respectively. Cash paid for interest was \$0.9 million and \$0.7 million for the three months ended March 31, 2005 and 2004, respectively.

4. Business Segment Information

The Company operates in two reportable segments based on geographic area: North America and the United Kingdom. Revenues are attributed to geographic regions based on where the revenues are derived.

| For the three months ended March 31, | |
|---|-------|
| ----- | ----- |
| 2005 | 2004 |
| ----- | ----- |

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| | | |
|----------------|------------|------------|
| Revenues: | | |
| North America | \$ 136,526 | \$ 152,633 |
| United Kingdom | 5,595 | 5,689 |
| | ----- | ----- |
| Total revenues | \$ 142,121 | \$ 158,322 |
| | ===== | ===== |

For the three months ended
March 31,

(Restated)

2005

2004

| | | |
|----------------------------------|----------|----------|
| Income before income taxes: | | |
| North America | \$ 1,755 | \$ 8,045 |
| United Kingdom | 840 | 1,051 |
| | ----- | ----- |
| Total income before income taxes | \$ 2,595 | \$ 9,096 |
| | ===== | ===== |

Revenues from Pitney Bowes, substantially all of which are generated in the North America segment, consisted of the following for the three months ended March 31, 2005 and 2004:

For the three months ended
March 31,

2005

2004

| | | |
|------------------------------------|-----------|-----------|
| Revenues from Pitney Bowes: | | |
| Pitney Bowes of Canada | \$ 2,085 | \$ 10,143 |
| Other subsidiaries of Pitney Bowes | 3,326 | 5,407 |
| | ----- | ----- |
| Sub-total | 5,411 | 15,550 |
| Pitney Bowes Credit Corporation | 21,122 | 19,648 |
| | ----- | ----- |
| Total | \$ 26,533 | \$ 35,198 |
| | ===== | ===== |

IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements - (continued)

For the periods presented, Pitney Bowes Credit Corporation ("PBCC") was the Company's primary lease vendor and the Company expects PBCC to continue as the Company's primary lease vendor in the future. However, if PBCC were to cease being the Company's primary lease vendor, the Company is confident that it could obtain a replacement primary lease vendor with substantially the same lease terms as PBCC. No other single customer or controlled group represented 10% or more of the Company's revenues.

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The following tables show identifiable long-lived assets and total assets for each reportable segment at March 31, 2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|--------------------------------------|-------------------|----------------------|
| | ----- | ----- |
| Identifiable long-lived assets: | | |
| North America | \$ 187,042 | \$ 190,926 |
| United Kingdom | 2,859 | 2,974 |
| | ----- | ----- |
| Total identifiable long-lived assets | \$ 189,901 | \$ 193,900 |
| | ===== | ===== |
| Total assets: | | |
| North America | \$ 433,529 | \$ 450,898 |
| United Kingdom | 18,120 | 16,638 |
| | ----- | ----- |
| Total assets | \$ 451,649 | \$ 467,536 |
| | ===== | ===== |

Identifiable long-lived assets in North America included goodwill of \$66.3 million at March 31, 2005 and December 31, 2004.

Concentrations

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers and relatively small account balances within the majority of the Company's customer base and their dispersion across different businesses. The Company periodically evaluates the financial strength of its customers and believes that its credit risk exposure is limited.

Most of the Company's product purchases are from overseas vendors, the majority of which are from a limited number of Japanese suppliers who operate manufacturing facilities in Asia. Although the Company currently sources products from a number of manufacturers throughout the world, a significant portion of new copier/MFP equipment is currently obtained from four Japanese suppliers. If these suppliers were unable to deliver products for a significant period of time, the Company would be required to find replacement products from an alternative supplier or suppliers, which may not be available on a timely or cost effective basis. The Company's operating results could be adversely affected if a significant supplier was unable to deliver sufficient product.

5. Restructuring Charges

On March 31, 2005, the Company announced the closing of its centralized National Remanufacturing Center in Milford, Connecticut to its employees and discontinued its remanufactured copier product line. The restructuring plan was a result of the industry shift to digital technology, which resulted in a decrease in customer demand for remanufactured product. The Company's analysis of the marketplace confirmed that the customer demand for remanufactured copiers was in a steady state of decline. The Company will continue to recondition and refurbish digital products at its regional distribution centers. In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," the Company recorded a liability in the first quarter of 2005 for the total estimated costs associated with the exit activity. Total restructuring charges as a result of this activity amounted to \$1.8 million, which included \$1.1 million in inventory write-offs, \$0.4 million in asset impairment charges, \$0.2 million in severance charges representing termination benefits for the

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staff reduction of nineteen employees and \$0.1 million in fixed asset disposals. The inventory write-off charges in the amount of \$1.1 million have been classified in cost of sales and the remaining charges amounting to \$0.7 million have been classified in selling, service and administrative expenses in the accompanying Income Statement. The Company anticipates that it will complete the closing of the remanufacturing center in the second quarter of 2005. The restructuring activity is attributable to the Company's North America geographic segment.

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IMAGISTICS INTERNATIONAL INC. Notes to Consolidated Financial Statements - (continued)

6. Earnings Per Share Calculation

Basic earnings per share was calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share was calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding plus all dilutive common stock equivalents outstanding during the applicable period. The calculation of diluted earnings per share did not include shares underlying approximately 26,534 and 7,300 options for the three months ended March 31, 2005 and 2004, respectively, since they were antidilutive for the periods presented.

A reconciliation of the basic and diluted earnings per share computation is as follows:

| | For the three months ended March 31, | |
|--|---|------------|
| | (Restated) 2005 | 2004 |
| Net income available to common stockholders | \$ 1,508 | \$ 5,184 |
| Weighted average common shares for basic earnings per share | 16,134,324 | 16,385,689 |
| Add: dilutive effect of restricted stock | 44,336 | 211,994 |
| Add: dilutive effect of stock options | 398,540 | 514,088 |
| Weighted average common shares and equivalents for diluted earnings per share | 16,577,200 | 17,111,771 |
| Basic earnings per share | \$ 0.09 | \$ 0.31 |
| Diluted earnings per share | \$ 0.09 | \$ 0.30 |

7. Goodwill and Goodwill Amortization

The Company accounts for goodwill in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," which requires that goodwill and certain other intangible assets having indefinite lives no longer be amortized to earnings, but instead be tested for impairment annually and on an interim basis if events or changes in circumstances indicate that goodwill might be impaired.

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The Company performed its annual test for impairment as of October 1, 2004 using the discounted cash flow valuation method. There was no impairment to the value of the Company's recorded goodwill. The carrying value of goodwill of \$66.3 million as of March 31, 2005 is attributable to the North America geographic segment.

8. Long-Term Debt

Long-term debt consisted of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|---------------------------|-------------------|----------------------|
| | ----- | ----- |
| Revolving Credit Facility | \$ 27,000 | \$ 18,000 |
| Term Loan | 52,768 | 52,904 |
| Less: current maturities | (545) | (545) |
| | ----- | ----- |
| Total long-term debt | \$ 79,223 | \$ 70,359 |
| | ===== | ===== |

The Company is party to a Credit Agreement with a group of lenders (the "Credit Agreement") that provides for secured borrowings and the issuance of letters of credit in an aggregate amount not to exceed \$195.0 million, comprised of a \$95.0 million Revolving Credit Facility (the "Revolving Credit Facility") and a \$100.0 million Term Loan (the "Term Loan").

The Company pledged substantially all of its assets plus 65% of the stock of the Company's direct, wholly-owned subsidiaries as security for its obligations under the Credit Agreement. Available borrowings and letter of credit issuance under the Revolving Credit Facility are determined by a borrowing base consisting of a percentage of our eligible accounts receivable, inventory, rental assets and accrued and advance billings, less outstanding borrowings under the Term Loan.

IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements - (continued)

The Credit Agreement contains financial covenants that require the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") and a maximum leverage ratio (total debt to EBITDA), as well as other covenants, which, among other things, place limits on dividend payments and capital expenditures.

During 2004, the Credit Agreement was amended (the "Fifth Amendment") to increase the amount of the Company's stock permitted to be repurchased from \$78.0 million to \$108.0 million, to increase the aggregate amount of acquisition consideration payable for acquisitions from \$30.0 million to \$60.0 million and to remove the requirement for annual borrowing base audits so long as \$50.0 million or more of borrowings are available under the Credit Agreement and the fixed charge ratio, as defined in the Fifth Amendment, is 2.0 or higher. In addition, during 2004, the Credit Agreement was amended to reduce and fix the Term Loan interest rate to LIBOR plus a margin of 1.25% or to the Bank of America base lending rate plus a margin of 0.25. At March 31, 2005, the

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Revolving Credit Facility interest rate was LIBOR plus a margin of 1.25% or the Bank of America base lending rate plus a margin of 0.25%.

At March 31, 2005, \$79.8 million of borrowings were outstanding under the Credit Agreement, consisting of \$27.0 million of borrowings under the Revolving Credit Facility and \$52.8 million of borrowings under the Term Loan, and the borrowing base amounted to approximately \$111.1 million. At March 31, 2005, the weighted average interest rate was 4.27% on borrowings under the Revolving Credit Facility and the interest rate was 3.82% on borrowings under the Term Loan. Approximately \$66.6 million of the Revolving Credit Facility was available for borrowing at March 31, 2005. The Term Loan is payable in 7 consecutive equal quarterly installments of \$0.1 million due June 30, 2005 through December 31, 2006, three consecutive equal quarterly installments of \$12.9 million due March 31, 2007 through September 30, 2007 and a final payment of \$12.9 million due at maturity.

At March 31, 2005 and December 31, 2004, one irrevocable standby letter of credit in the amount of \$1.4 million was outstanding as security for the Company's casualty insurance program.

9. Commitments and Contingencies

Guarantees and indemnifications

The Company has applied the disclosure provisions of FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others," to its agreements that contain guarantee or indemnification clauses. FIN No. 45 expands the disclosure provisions required by SFAS No. 5, "Accounting for Contingencies," by requiring the guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of the arrangements in which the Company is a guarantor.

In connection with the Distribution, the Company entered into certain agreements pursuant to which it may be obligated to indemnify Pitney Bowes with respect to certain matters. The Company agreed to assume all liabilities associated with the Company's business, and to indemnify Pitney Bowes for all claims relating to the Company's business. These may be claims by or against Pitney Bowes or the Company relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

The Company and Pitney Bowes entered into a tax separation agreement, which governs the Company's and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement generally obligated the Company not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates the Company to indemnify Pitney Bowes and affiliates to the extent that any action the Company takes or fails to take gives rise to a tax liability with respect to the Distribution.

It is not possible to predict the maximum potential future payments under these agreements. As of March 31, 2005, the Company has not paid any material amounts pursuant to the above indemnifications other than expenses incurred in connection with the defense and settlement of assumed claims asserted in connection with the operation of the Company in the ordinary course of business. The Company believes that if it were to incur a loss in any of these matters, such loss would not have a material adverse effect on the Company's financial position, results of operations or cash flows.

IMAGISTICS INTERNATIONAL INC.
Notes to Consolidated Financial Statements - (continued)

Legal matters

In connection with the Distribution, the Company agreed to assume all liabilities associated with its business, and to indemnify Pitney Bowes for all claims relating to its business. In the normal course of business, the Company has been party to occasional lawsuits relating to the Company's business. These may involve litigation or other claims by or against Pitney Bowes or the Company relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

In connection with the Distribution, liabilities were transferred to the Company for matters where Pitney Bowes was a plaintiff or a defendant in lawsuits, relating to the business or products of the Company. The Company has not recorded liabilities for loss contingencies related to these and other subsequent proceedings since the ultimate resolutions of the legal matters cannot be determined and a minimum cost or amount of loss cannot be reasonably estimated. In the opinion of the Company's management, none of these proceedings, individually or in the aggregate, should have a material adverse effect on the Company's financial position, results of operations or cash flows.

10. Distribution Agreements

The Company and Pitney Bowes entered into a transition services agreement that provided for Pitney Bowes to provide certain services to the Company for a limited time following the Distribution. These services were provided at cost and included information technology, computing, telecommunications, certain accounting, field service of equipment and dispatch call center services. The Company and Pitney Bowes had agreed to an extension until December 31, 2003, of the transition services agreement as it related to information technology and related services. Services provided under this extension were at negotiated market rates. Except for field service of equipment, all of the services provided by Pitney Bowes under these agreements have ceased in accordance with the terms of the agreements.

The Company and Pitney Bowes entered into a one-year service agreement on an arms-length basis relating to field service of equipment in certain remote geographic locations not covered by the Company's direct service organization. This agreement, the initial term of which expired on July 1, 2004, had been extended under the same terms and conditions, through September 30, 2004. Effective October 1, 2004, the Company and Pitney Bowes entered into a three-year service agreement under similar terms and conditions. This agreement expires on September 30, 2007. Services provided under this agreement are at negotiated prices.

The Company paid Pitney Bowes \$1.3 million for both the three months ended March 31, 2005 and 2004, in connection with field service of equipment.

The Company also entered into certain other agreements covering intellectual property, commercial relationships and leases and licensing arrangements. The pricing terms of the products and services covered by the other commercial agreements reflect negotiated prices.

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The Company and Pitney Bowes entered into a tax separation agreement, which governs the Company's and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement generally obligated the Company not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates the Company to indemnify Pitney Bowes and affiliates to the extent that any action the Company takes or fails to take gives rise to a tax liability with respect to the Distribution.

11. Acquisitions

Effective August 30, 2004, the Company acquired all of the stock and business of an independent dealer of copier and multifunctional equipment and related support services in Canada, to continue to expand the Company's geographic sales and service capabilities. The aggregate purchase price was \$2.4 million, of which \$0.4 million was allocated to the net liabilities assumed at the date of acquisition and \$2.8 million was allocated to goodwill.

Effective June 15, 2004, the Company acquired substantially all of the assets and business of an independent dealer of copier and multifunctional equipment and related support services in the United States, to expand the Company's geographic sales and service capabilities. The aggregate purchase price was \$7.4 million, consisting of \$6.0 million cash paid at closing, \$0.3 million payable 120 days from closing and four equal annual installments of \$0.3 million payable June 15, 2005 through June 15, 2008. Of the aggregate purchase price, \$2.3 million was allocated to the assets acquired and liabilities assumed at the date of acquisition and \$5.1 million was allocated to intangible and other assets, of which \$3.8 million was allocated to goodwill.

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IMAGISTICS INTERNATIONAL INC.

Notes to Consolidated Financial Statements - (continued)

Effective March 16, 2004, the Company acquired substantially all of the assets and business of an independent dealer of copier and multifunctional equipment and related support services in Canada, to continue to expand the Company's geographic sales and service capabilities. The aggregate purchase price was \$4.4 million, consisting of \$3.8 million cash paid at closing, \$0.3 million payable 120 days from closing and \$0.3 million payable 24 months after closing. Of the aggregate purchase price, \$0.6 million was allocated to the assets acquired and liabilities assumed at the date of acquisition and \$3.8 million was allocated to intangible and other assets, of which \$3.5 million was allocated to goodwill.

The above acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of the acquired businesses have been included in the Company's consolidated financial statements from the respective dates of acquisition. There were no acquisitions during the three months ended March 31, 2005.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our latest Annual Report on Form 10-K for the year ended December 31, 2004 filed with the United States Securities and Exchange Commission on March 10, 2005, as well as the unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q/A (Amendment No. 1). This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Please see "Risk Factors That Could Cause Results To Vary" and "Special Note About Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. Our actual results could differ materially from those forward-looking statements discussed in this section. For the purposes of the following discussion, unless the context otherwise requires, "Imagistics International Inc.," "Imagistics," "We" and "Our," refers to Imagistics International Inc. and subsidiaries.

RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS

Subsequent to the issuance of our March 31, 2005 financial statements, we discovered an error in the calculation of share-based compensation expense in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," related to the recognition of share-based compensation expense for awards subject to acceleration of vesting for retirement eligible employees. Prior to the adoption of SFAS No. 123(R) on January 1, 2005, we accounted for share-based compensation expense under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and followed the accepted practice of recognizing share-based compensation expense over the explicit vesting period. SFAS No. 123(R) requires the immediate recognition at the grant date of the full share-based compensation expense for grants to retirement eligible employees, as the explicit vesting period is non-substantive. Upon adoption of SFAS No. 123(R) on January 1, 2005, we continued to follow the practice of recognizing share-based compensation expense over the explicit service period in error. The error resulted in a \$1.1 million understatement of share-based compensation expense in the quarterly period ended March 31, 2005. The effect of this restatement is to accelerate the non-cash share-based compensation expense of grants to retirement eligible employees in January 2005 to the first quarter of 2005 rather than recognizing the share-based compensation expense over the explicit three-year vesting period. As a result, income before income taxes was reduced by \$1.1 million, net income was reduced by \$0.6 million and both basic and diluted earnings per share were reduced by \$0.04 for the quarterly period ended March 31, 2005. See Note 2 of the "Notes to Consolidated Financial Statements" included in Part 1, Item 1. All applicable amounts in the Management's Discussion and Analysis of Financial Condition and Results of Operations have been restated.

OVERVIEW

Imagistics International Inc. ("Imagistics" or the "Company") is an independent direct sales, service and marketing organization offering business document imaging and management solutions, including copiers, multifunctional products, often referred to as MFPs, and facsimile machines, in the United States, Canada and the United Kingdom. Our primary customers include large corporate customers known as national accounts, government entities and mid-size and regional businesses known as commercial accounts. MFPs offer the multiple functionality of copying, printing, faxing, emailing and scanning in a single unit. In addition, we offer a range of document imaging options including digital, black and white, color and/or networked products, systems and solutions.

Our strategic vision is to become the leading independent direct provider

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of enterprise office imaging and document solutions by providing world-class products and services with unparalleled customer support and satisfaction with a focus on multiple location customers, thus building value for our shareholders, customers and employees. Our strategic initiatives include:

- o Maintaining and further strengthening major account relationships,
- o Expanding our product offerings through our sourcing and distribution relationships,
- o Increasing outreach of our direct sales and service force to the copier/MFP market,
- o Focusing on customer needs and
- o Pursuing opportunistic expansion and investments.

Our revenue is generated from three lines of business: copier/MFP, facsimile and sales to Pitney Bowes of Canada. We report sales to Pitney Bowes of Canada separately as it operates under a separate reseller agreement. The principal evolution in our industry and business has been the transition to networked digital copiers/MFPs, away from single-function stand-alone facsimile machines and analog copiers. This transition has resulted in decreased demand for and usage of single function facsimile equipment in the marketplace. In addition, the industry is now migrating towards color and color-enabled products. We have

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responded to this market development by focusing our efforts on the growth opportunities existing in our digital copier/MFP and color-enabled product line.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Revenue recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier/MFP equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the equipment at the customer location. For facsimile equipment and facsimile supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the facsimile supplies to the customer location. We record a provision for estimated sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless we receive prior notice of cancellation. Under the terms of rental contracts, we bill our customers a flat periodic charge and/or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. We record a provision for estimated usage adjustments on rental contracts based upon historical experience.

Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless we receive prior notice of cancellation. Under the terms of support services contracts, we bill

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our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. We record a provision for estimated usage adjustments on service contracts based upon historical experience.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

We enter into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. We account for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing of support services contracts when sold on a stand-alone basis.

Accounts receivable

Accounts receivable are stated at net realizable value by recording allowances for those accounts receivable amounts that we believe are uncollectible. Our estimate of losses is based on prior product returns and invoice adjustment experience as well as prior collection experience and includes evaluating the credit worthiness of our customers, analyzing historical bad debt write-offs and reviewing the aging of the receivables. Our allowance for doubtful accounts includes amounts for specific accounts that we believe are uncollectible, as well as amounts that have been computed by applying certain percentages based on historic loss trends, to certain accounts receivable aging categories and estimated amounts relating to delinquencies associated with the changes in our billing policies and invoice format resulting from the implementation of our enterprise resource planning ("ERP") system.

Inventory valuation

Inventories are valued at the lower of cost or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are calculated using management's best estimates of inventory value based on the age of the inventory, quantities on hand compared with historical and projected usage and current and anticipated demands.

Rental equipment

Rental equipment is comprised of equipment on rent to customers and is depreciated on the straight-line method over the estimated useful life of the equipment. Copier/MFP equipment is depreciated over three years and facsimile equipment placed in service prior to October 1, 2003 is depreciated over five years. Facsimile equipment placed in service on or after October 1, 2003 is depreciated over three years.

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Share-based employee compensation

We adopted SFAS No. 123(R), "Share-Based Payment" on January 1, 2005. SFAS

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No. 123(R) establishes the accounting for share-based compensation and requires companies to measure and recognize compensation expense for all share-based payments at fair value. Accordingly, share-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. We elected to adopt the modified retrospective application method as provided by SFAS No. 123(R) and financial statement amounts for all prior years for which SFAS No. 123, "Accounting for Stock-Based Compensation" was effective have been restated to give effect to the fair value-based method of accounting under SFAS No. 123(R).

Revenue

(Dollars in thousands)

The following table shows our revenue sources by segment for the periods indicated.

| | For the three months ended March 31, | |
|-------------------|---|----------------|
| | 2005 | 2004 |
| North America | \$ 136,526 | \$ 152,633 |
| United Kingdom | 5,595 | 5,689 |
| Total revenue | \$ 142,121 | \$ 158,322 |

Our revenue is generated from three lines of business: copier/MFP, facsimile and sales to Pitney Bowes of Canada. The following table shows our revenue and growth rates versus the prior year by revenue type for our three business lines, for the periods indicated. Sales to Pitney Bowes of Canada are presented separately as it operates under a separate reseller agreement. There is no rental or support service revenue associated with Pitney Bowes of Canada.

| | For the three months ended March 31, | | | |
|----------------------------|---|----------------|------------|----------------|
| | 2005 | | 2004 | |
| | Revenue | Growth Rate | Revenue | Growth Rate |
| Sales | | | | |
| Copier/MFP products | \$ 56,287 | 8.1% | \$ 52,058 | 15.8% |
| Facsimile products | 14,488 | (28.8%) | 20,354 | (6.4%) |
| Pitney Bowes of Canada | 2,085 | (79.4%) | 10,143 | 59.3% |
| Total sales | 72,860 | (11.7%) | 82,555 | 13.0% |
| Rentals | | | | |
| Copier/MFP products | 27,569 | 5.4% | 26,149 | 6.1% |
| Facsimile products | 20,016 | (29.2%) | 28,262 | (12.8%) |
| Total rentals | 47,585 | (12.5%) | 54,411 | 4.7% |
| Support services | | | | |
| Copier/MFP products | 19,954 | 2.2% | 19,523 | 5.8% |
| Facsimile products | 1,722 | (6.1%) | 1,833 | (21.8%) |
| Total support services | 21,676 | 1.5% | 21,356 | 2.7% |

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| | | | | |
|---------------|------------|---------|------------|------|
| Total revenue | \$ 142,121 | (10.2%) | \$ 158,322 | 4.9% |
| | ===== | | ===== | |

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The following table shows our revenue and growth rates versus the prior year for our three business lines, for the periods indicated. Sales to Pitney Bowes of Canada are presented separately as it operates under a separate reseller agreement.

| | For the three months ended March 31, | | | |
|---|---|----------------|------------|----------------|
| | 2005 | | 2004 | |
| | Revenue | Growth Rate | Revenue | Growth Rate |
| Revenue | | | | |
| Copier/MFP products | \$ 103,810 | 6.2% | \$ 97,730 | 11.0% |
| Facsimile products | 36,226 | (28.2%) | 50,449 | (10.7%) |
| Revenue excluding Pitney Bowes of Canada | 140,036 | (5.5%) | 148,179 | 2.5% |
| Pitney Bowes of Canada | 2,085 | (79.4%) | 10,143 | 59.3% |
| Total revenue | \$ 142,121 | (10.2%) | \$ 158,322 | 4.9% |

Sales to Pitney Bowes of Canada are pursuant to a reseller agreement and are at margins significantly below the typical margins on sales to our direct customers. We expect to maintain a reseller agreement with Pitney Bowes of Canada, however, we are unable to predict the future level of sales to Pitney Bowes of Canada. Although revenue, excluding sales to Pitney Bowes of Canada represents a non-GAAP financial measure, we believe it is useful to analyze revenue excluding sales to Pitney Bowes of Canada in order to better evaluate the effectiveness of our direct sales and marketing initiatives, including the transition of our business from facsimile to copier/MFP products, and our pricing policies.

Results of Operations

The following table shows our statement of income data, expressed as a percentage of total revenue, for the periods indicated. The table also shows cost of sales as a percentage of sales revenue, cost of rentals as a percentage of rental revenue and our effective tax rate:

| | As a % of total revenue, except as noted For the three months ended March 31, | |
|-----------------|---|------|
| | (Restated) 2005 | 2004 |
| Equipment sales | 28% | 28% |
| Supplies sales | 23% | 24% |

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| | | |
|---|-------|-------|
| Total sales | 51% | 52% |
| Equipment rentals | 34% | 34% |
| Support services | 15% | 14% |
| | ----- | ----- |
| Total revenue | 100% | 100% |
| Cost of sales | 29% | 31% |
| Cost of rentals | 10% | 10% |
| Selling, service and administrative expenses | 58% | 53% |
| | ----- | ----- |
| Operating income | 3% | 6% |
| Interest expense | 1% | 1% |
| | ----- | ----- |
| Income before income taxes | 2% | 5% |
| Provision for income taxes | 1% | 2% |
| | ----- | ----- |
| Net income | 1% | 3% |
| | ===== | ===== |
| Cost of sales as a percentage of sales revenue | 58.1% | 59.3% |
| | ===== | ===== |
| Cost of rentals as a percentage of rental revenue | 29.9% | 29.0% |
| | ===== | ===== |
| Effective tax rate | 41.9% | 43.0% |
| | ===== | ===== |

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Three months ended March 31, 2005 and March 31, 2004

Revenue. For the three months ended March 31, 2005, total revenue of \$142.1 million declined 10.2% versus revenue of \$158.3 million for the three months ended March 31, 2004 reflecting lower facsimile revenue and lower sales to Pitney Bowes of Canada. Excluding the impact of revenue attributable to sales to Pitney Bowes of Canada, which operates under a reseller agreement, total revenue for the first quarter declined 5.5% versus the prior year.

Equipment and supplies sales revenue of \$72.9 million decreased 11.7% for the three months ended March 31, 2005 from \$82.6 million for the three months ended March 31, 2004, reflecting lower sales to Pitney Bowes of Canada and lower facsimile sales. Excluding the impact of sales to Pitney Bowes of Canada, total sales revenue decreased 2.3% compared with the prior year. Copier/MFP sales increased 8.1% primarily due to growth in low end digital and color multifunctional product segments. Facsimile equipment and supplies sales declined 28.8% compared with the prior year reflecting lower equipment and supplies sales due to the acceleration in the continuing expected industry-wide reduction in facsimile usage, and exacerbated by a large sale of facsimile equipment in the first quarter of 2004.

Equipment rental revenue of \$47.6 million for the three months ended March 31, 2005 declined 12.5% versus equipment rental revenue of \$54.4 million for the three months ended March 31, 2004, reflecting acceleration in the continued expected decline in facsimile rental revenues, partially offset by an increase in copier/MFP rental revenues resulting from our continuing copier/MFP marketing focus. Rental revenue derived from our copier/MFP product line increased 5.4% reflecting growth in the overall installed rental population and increased page

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volumes. The growth in copier/MFP rentals in the first quarter of 2005 continued to be impacted by the expiration of certain Federal government contracts not renewed, as our current product offerings are manufactured in China and are not authorized under applicable U.S. government purchase regulations. Rental revenue from our facsimile product line declined 29.2% versus the prior year reflecting acceleration of the expected decline in the rental installed base due in part to the impact of rental to sale conversions coupled with lower per unit pricing.

Support services revenue for the three months ended March 31, 2005 of \$21.6 million, primarily derived from stand-alone service contracts, increased 1.5% versus support services revenue of \$21.4 million for the three months ended March 31, 2004, reflecting higher copier/MFP service revenue due to increased page volumes and copier/MFP equipment sales growth, partially offset by lower facsimile service revenue.

Cost of sales. Cost of sales was \$42.3 million for the three months ended March 31, 2005 compared with \$48.9 million for the same period in 2004 and cost of sales as a percentage of sales revenue decreased to 58.1% for the three months ended March 31, 2005 from 59.3% for the three months ended March 31, 2004. The decrease in cost of sales was primarily due to a lower proportion of sales to Pitney Bowes of Canada, which are at substantially lower gross margins than direct sales, lower inventory obsolescence charges and lower copier/MFP product cost, partially offset by the continuing shift in product mix toward copier/MFP products, which have a higher cost as a percentage of sales revenue than the facsimile product line. The decrease in cost of sales for the three months ended March 31, 2005 was substantially offset by restructuring inventory charges as a result of the closing of our National Remanufacturing Center (see "Restructuring Charges" below), which increased cost of sales by \$1.1 million or 1.6%.

Cost of rentals. Cost of rentals was \$14.2 million for the three months ended March 31, 2005 compared with \$15.8 million for the three months ended March 31, 2004 and cost of rentals as a percentage of rental revenue increased 0.9 percentage points to 29.9% for the three months ended March 31, 2005 from 29.0% for the three months ended March 31, 2004. This slight increase was due to the continuing shift in product revenue mix from facsimile to copier/MFP product rentals, which have a higher cost as a percentage of rental revenue than facsimile machines.

Selling, service and administrative expenses. Selling, service and administrative expenses of \$81.9 million were 57.6% of total revenue for the three months ended March 31, 2005 compared with \$83.6 million, or 52.8% of total revenue for the three months ended March 31, 2004. Selling, service and administrative expenses decreased versus the prior year primarily resulting from lower ERP-implementation and related administrative support costs and lower compensation and benefit expenses relating to reduced headcount. This was partially offset by higher operating expenses associated with direct distribution expansion and a higher proportion of ERP costs expensed versus the prior year. In addition, selling, service and administrative expenses for the three months ended March 31, 2005 included \$0.7 million in restructuring charges as a result of the closing of our National Remanufacturing Center (see "Restructuring Charges" below) and \$1.8 million in severance charges resulting from cost reduction actions due to a reduction in staff of approximately 100 employees in the first quarter of 2005, which increased selling, service and administrative expenses by 3.3%.

Field sales and service operating expenses are included in selling, service and administrative expenses because no meaningful allocation of these expenses to cost of sales, cost of rentals or cost of support services is practicable.

Interest expense. Interest expense increased to \$1.1 million for the three

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months ended March 31, 2005 compared with \$0.9 million for the three months ended March 31, 2004 resulting from higher debt levels and higher interest rates. The weighted

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average interest rate for the three months ended March 31, 2005 was 4.0% compared with 3.1% for the three months ended March 31, 2004.

Effective tax rate. Our effective tax rate was 41.9% for the three months ended March 31, 2005 compared with 43.0% for the three months ended March 31, 2004 due to a decrease in state and local income taxes and lower tax reserves.

Restructuring Charges

On March 31, 2005, we announced the closing of our centralized National Remanufacturing Center in Milford, Connecticut to our employees and discontinued our remanufactured copier product line. The restructuring plan was a result of the industry shift to digital technology, which resulted in a decrease in customer demand for remanufactured product. Our analysis of the marketplace confirmed that the customer demand for remanufactured copiers was in a steady state of decline. We will continue to recondition and refurbish digital products at our regional distribution centers. Total restructuring charges as a result of this activity amounted to \$1.8 million, which included \$1.1 million in inventory write-offs, \$0.4 million in asset impairment charges, \$0.2 million in severance charges representing termination benefits for the staff reduction of nineteen employees and \$0.1 million in fixed asset disposals. The inventory write-off charges amounting to \$1.1 million have been classified in cost of sales and the remaining charges amounting to \$0.7 million have been classified in selling, service and administrative expenses in the Income Statement set forth in the "Notes to Consolidated Financial Statements" included in Part I, Item 1 herein. We anticipate that we will complete the closing of the remanufacturing center in the second quarter of 2005. The restructuring activity is attributable to our North America geographic segment.

Liquidity and Capital Resources

We are party to a Credit Agreement with a group of lenders (the "Credit Agreement") that provided for secured borrowings or the issuance of letters of credit in an aggregate amount not to exceed \$195.0 million, comprised of a \$95.0 million Revolving Credit Facility (the "Revolving Credit Facility") and a \$100.0 million Term Loan (the "Term Loan").

We have pledged substantially all of our assets plus 65% of the stock of our direct, wholly-owned subsidiaries as security for our obligations under the Credit Agreement. Available borrowings and letter of credit issuance under the Revolving Credit Facility are determined by a borrowing base consisting of a percentage of our eligible accounts receivable, inventory, rental assets and accrued and advance billings, less outstanding borrowings under the Term Loan.

The Credit Agreement contains financial covenants that require the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") and a maximum leverage ratio (total debt to EBITDA), as well as other covenants, which, among other things, place limits on dividend payments and capital expenditures.

During 2004, the Credit Agreement was amended (the "Fifth Amendment") to increase the amount of our stock permitted to be repurchased from \$78.0 million to \$108.0 million, to increase the aggregate amount of acquisition consideration payable for acquisitions from \$30.0 million to \$60.0 million and to remove the

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requirement for annual borrowing base audits so long as \$50.0 million or more of borrowings are available under the Credit Agreement and the fixed charge ratio, as defined in the Fifth Amendment, is 2.0 or higher. In addition, during 2004, the Credit Agreement was amended to reduce and fix the Term Loan interest rate to LIBOR plus a margin of 1.25% or to the Bank of America base lending rate plus a margin of 0.25%. At March 31, 2005, the Revolving Credit Facility interest rate was LIBOR plus a margin of 1.25% or the Bank of America base lending rate plus a margin of 0.25%. At March 31, 2005, we were in compliance with all of the financial covenants.

At March 31, 2005, \$79.8 million of borrowings were outstanding under the Credit Agreement, consisting of \$27.0 million of borrowings under the Revolving Credit Facility and \$52.8 million of borrowings under the Term Loan, and the borrowing base amounted to approximately \$111.1 million. At March 31, 2005, the weighted average interest rate was 4.27% on borrowings under the Revolving Credit Facility and the interest rate was 3.82% on borrowings under the Term Loan. Approximately \$66.6 million of the Revolving Credit Facility was available for borrowing at March 31, 2005. The Term Loan is payable in 7 consecutive equal quarterly installments of \$0.1 million due June 30, 2005 through December 31, 2006, three consecutive equal quarterly installments of \$12.9 million due March 31, 2007 through September 30, 2007 and a final payment of \$12.9 million due at maturity.

At March 31, 2005 and December 31, 2004, one irrevocable standby letter of credit in the amount of \$1.4 million was outstanding as security for our casualty insurance program.

The ratio of current assets to current liabilities increased to 3.7 to 1 at March 31, 2005 compared to 2.9 to 1 at December 31, 2004 due to a decrease in accounts payable and accrued liabilities, partially offset by decreases in inventories and accounts receivable. At March 31, 2005, our total debt as a percentage of total capitalization increased to 22.0% from 20.0% at December 31, 2004 due to an increase in our debt and stock repurchases under our stock buyback program.

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In October 2003, we implemented Phase II of our ERP system, consisting of order management, order fulfillment, billing, cash collection, service management and sales compensation. During the initial stages of the implementation and throughout our subsequent stabilization efforts, we experienced certain processing inefficiencies affecting billings, which impacted accounts receivable levels. We have provided for collection losses on the increase in accounts receivable at rates higher than our historical experience. However, if collection losses related to accounts receivable are higher than the amounts provided, we would recognize an additional increase in our provision for bad debt.

We began implementing Phase III of our ERP system during the fourth quarter of 2004, primarily comprised of certain automated tools to assist in invoice dispute resolution and collection activities. While we encountered performance issues in the implementation of these automated tools, these issues have been substantially remedied and these automated tools have begun to assist in our progress in collecting our accounts receivable. During 2005, we expect to complete the implementation of Phase III of our ERP implementation, which will further enhance our efficiencies with respect to our collection activities.

Our cash flows from operations, together with borrowings under the Credit Agreement, are expected to adequately finance our ordinary operating cash requirements and capital expenditures for the foreseeable future. We expect to

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fund further expansion and long-term growth primarily with cash flows from operations, together with borrowings under the Credit Agreement and possible future sales of additional equity or debt securities.

Net cash provided by operating activities was \$6.0 million for the three months ended March 31, 2005 compared with net cash used in operating activities of \$4.4 million for the three months ended March 31, 2004. Net income was \$1.5 million and \$5.2 million for the three months ended March 31, 2005 and 2004, respectively. Non-cash charges for depreciation and amortization, provisions for bad debt and inventory obsolescence in the aggregate provided cash of \$19.5 million and \$20.8 million for the three months ended March 31, 2005 and 2004, respectively. Changes in the principal components of working capital required \$16.4 million and \$28.9 million of cash in the three months ended March 31, 2005 and 2004, respectively. Of the \$16.4 million increase in our working capital requirements in the three months ended March 31, 2005, \$24.2 million resulted from a decrease in accounts payable and accrued liabilities consisting of \$16.6 million related to timing of payments for inventory shipped from Asia in late 2004, \$5.0 million of incentive compensation payments and \$2.6 related to timing of other payments, and \$1.8 million resulted from an increase in accrued billings related to timing of invoicing to customers. This was partially offset by a decrease in inventories of \$5.6 million due to reduced inventory levels and a decrease in accounts receivable of \$4.0 million resulting from improved collection activity. Of the \$28.9 million increase in our working capital requirements in the three months ended March 31, 2004, \$13.7 million resulted from an increase in accounts receivable due to delays in collections resulting from customer inquiries related to changes to the Company's billing policies and invoice format associated with the implementation of our ERP system, \$13.1 million resulted from a decrease in accounts payable and accrued liabilities consisting of \$6.9 million related to timing of payments for inventory shipped from Asia in late 2003, \$4.9 million of incentive compensation payments and \$2.4 million related to timing of insurance payments.

Net cash used in investing activities was \$11.5 million and \$16.4 million for the three months ended March 31, 2005 and 2004, respectively. Investment in rental equipment assets totaled \$9.4 million and \$9.8 million for the three months ended March 31, 2005 and 2004, respectively. The reduced level of rental asset expenditures resulted primarily from lower facsimile placements. Capital expenditures for property, plant and equipment were \$2.1 million and \$2.8 million for the three months ended March 31, 2005 and 2004, respectively, of which the investment in our ERP system accounted for \$1.3 million and \$1.7 million, respectively.

Cash provided by financing activities was \$6.3 million for the three months ended March 31, 2005 compared with \$10.2 million for the three months ended March 31, 2004. Net borrowings under the Revolving Credit Facility were \$9.0 million for the three months ended March 31, 2005 compared with \$15.0 million for the three months ended March 31, 2004. For the three months ended March 31, 2005 and 2004, cash was used to repurchase 143,364 shares of our stock at a cost of \$4.7 million and 148,900 shares at a cost of \$6.3 million, respectively.

During the three month period ended March 31, 2005, we had no material changes in our contractual obligations and commitments. We had no material commitments other than supply agreements with vendors that extend only to equipment supplies and parts ordered under purchase orders; there are no long-term purchase requirements. We will continue to make additional investments in facilities, rental equipment, computer equipment and systems and our distribution network as required to support our operations. We anticipate investments in rental equipment assets for new and replacement programs in amounts consistent with the recent past. We estimate that we will spend approximately \$2.7 million over the remainder of 2005 to continue to enhance our information systems infrastructure and implement our ERP system.

Risk Factors that Could Cause Results to Vary

Risk Factors relating to our business

The document imaging and management industry is undergoing an evolution in product offerings, moving toward the use of networked, digital and color technology in a multifunctional office environment. Our continued success will depend to a great extent on our ability to respond to this changing environment by developing new options and document imaging solutions for our customers.

The proliferation of e-mail, multifunctional products and other technologies in the workplace has led to a reduction in the use of traditional copiers and facsimile machines. We must be able to continue to obtain products with the appropriate technological advancements in order to remain successful. We cannot anticipate whether other technological advancements will substantially minimize the need for our products in the future.

The document imaging solutions industry is very competitive; we may be unable to compete favorably, causing us to lose sales to our competitors, many of whom are substantially larger and possess greater financial resources. Our future success depends, in part, on our ability to deliver enhanced products, service packages and business processes such as e-commerce capabilities, while also offering competitive price levels.

In order to be successful, we must retain and motivate executives and other key employees, including those in managerial, financial, technical, sales, marketing and IT support positions. The loss of key employees could have an adverse effect on our operations.

Our ability to achieve and maintain a consistent trend of revenue growth and earnings is dependent upon new equipment placements, as well as sales of services and supplies occurring after the initial equipment placements of our copier/MFP products. The inability to place new equipment and capture the aftermarket supplies and service revenue would have an adverse affect on our results of operations and financial condition.

An acceleration in the decline in facsimile revenues would have an adverse effect on our results of operations and financial condition.

We rely on outside suppliers to manufacture the products that we distribute, many of whom are located in the Far East. In addition, our primary suppliers sell products in competition with us, either directly or through dealer channels. Four manufacturers supply a significant portion of our new copier and multifunctional equipment. If these manufacturers discontinue their products or are unable to deliver us products in the future or if political changes, economic disruptions or natural disasters occur where their production facilities are located, we will be forced to identify an alternative supplier or suppliers for the affected product. In addition, although we have worked with our suppliers and freight forwarders to mitigate the potential impacts of an outbreak of infectious disease affecting our supply chain, should our manufacturers become affected by epidemics of infectious diseases, we could be forced to identify an alternative supplier or suppliers for the affected product. Although we are confident that we can identify alternate sources of supply, we may not be successful in doing so. Even if we are successful, the replacement product may be more expensive or may lack certain features of the discontinued product and we may experience some delay in obtaining the product. Other events that disrupt the shipment to or receipt of ocean freight at U.S.

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ports, such as labor unrest, war or terrorist activity could delay, prevent or add substantial cost to our receipt of such products. Any of these events would cause disruption to our customers and could have an adverse effect on our business.

We have a geographic dispersion of business and assets located across North America comprised of our sales, service and distribution facilities. Changes in international, national or political conditions, including terrorist attacks could impact the sales, service and distribution of our products to our customers and could have an adverse effect on our business.

A portion of our international business is transacted in local currency. Currently, approximately 10% of our total product purchases, based on costs, are denominated in yen. The majority of our remaining product purchases are denominated in U.S. dollars and are produced by Japanese suppliers in manufacturing facilities located in China. Currently, the exchange rate of the Chinese renminbi and the U.S. dollar is fixed. If the Chinese government was to revalue the Chinese renminbi and the nominal value of the renminbi rises, the resultant impact on the exchange rate of the Chinese renminbi and the U.S. dollar could have a negative impact on our product cost. We do not currently utilize any form of derivative financial instruments to manage our exchange rate risk. We manage our foreign exchange risk by attempting to pass through to our customers any cost increases related to foreign currency exchange. However, no assurance can be given that we will be successful in passing cost increases through to our customers in the future.

Pitney Bowes has been and is expected to continue to be a significant customer. For the three months ended March 31, 2005 and 2004, revenues from Pitney Bowes, exclusive of equipment sales to PBCC for lease to the end user, accounted for

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approximately 4% and 10%, respectively, of our total revenue. However, no assurance can be given that Pitney Bowes will continue to purchase our products and services.

In connection with the Distribution, Imagistics and Pitney Bowes entered into a non-exclusive intellectual property agreement that allowed us to operate under the "Pitney Bowes" brand name for a term of up to two years after the Distribution. In 2002, we began introducing new products under the "Imagistics" brand name and we initiated a major brand awareness advertising campaign to establish our new brand name. Effective December 2003, we no longer use the Pitney Bowes brand name and all new products are introduced under the Imagistics brand name. Brand name recognition is an important part of our overall business strategy and we cannot assure you that customers will maintain the same level of interest in our products now that we can no longer use the Pitney Bowes brand name.

Risk factors relating to our ERP system implementation

In October 2003, we implemented Phase II of our ERP system, consisting of order management, order fulfillment, billing, cash collection, service management and sales compensation. During the initial stages of the implementation and throughout our subsequent stabilization efforts, we experienced certain processing inefficiencies affecting billings, which impacted accounts receivable levels. We have provided for collection losses on the increase in accounts receivable at rates higher than our historical experience. However, if collection losses related to accounts receivable are higher than the amounts provided, we would recognize an additional increase in our provision for

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bad debt.

We began implementing Phase III of our ERP system during the fourth quarter of 2004, primarily comprised of certain automated tools to assist in invoice dispute resolution and collection activities. While we encountered performance issues in the implementation of these automated tools, these issues have been substantially remedied and these automated tools have begun to assist in our progress in collecting our accounts receivable. During 2005, we expect to complete the implementation of Phase III of our ERP implementation, which will further enhance our efficiencies with respect to our collection activities.

With respect to the calculation of sales compensation, we continue to work through certain of the processing inefficiencies resulting in data inaccuracies and potential inaccuracies in calculated sales compensation. Due to these issues, we have continued to apply alternate methodologies to calculate and pay sales compensation. We implemented a new sales compensation program and initially planned to begin paying based on the ERP calculation in the first quarter of 2005. We delayed this implementation to complete additional validation and data verification and plan to begin paying based on the ERP calculation in the third quarter of 2005. We will continue to implement this program and anticipate that we will pay all sales compensation based on the ERP calculation in 2005.

We remain engaged in a period of stabilization, as is typical of a large ERP system implementation. We anticipate that we will resolve the issues related to our ERP system implementation that are impacting our customer billings, accounts receivable and sales compensation. However, if we are unable to do so in a reasonable time frame, these issues could have a negative impact on customer and employee satisfaction and retention, which could result in a potential loss of business. Although no assurance can be given that these efforts related to customer billings, accounts receivable and sales compensation will be successful in the time periods expected, other than the temporary increase in working capital requirements, we do not anticipate that these issues will have a material adverse effect on our financial position, results of operations or future cash flows.

Special Note About Forward-Looking Statements

Statements contained in this discussion and elsewhere in this report that are not purely historical are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, and are based on management's beliefs, certain assumptions and current expectations. These statements may be identified by their use of forward-looking terminology such as the words "expects", "projects", "anticipates", "intends" and other similar words. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. The forward-looking statements contained herein are made as of the date hereof and we do not undertake any obligation to update any forward-looking statements, whether as a result of future events, new information or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have certain limited exposures to market risk related to changes in interest rates and foreign currency exchange rates. Currently, we do not utilize any form of derivative financial instruments to manage our interest rate risk or our exchange rate risk. We manage our foreign exchange risk by attempting to pass through to our customers any cost increases related to foreign currency exchange. In addition, we are exposed to foreign exchange rate fluctuations with

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respect to the British Pound and the Canadian Dollar as the financial results of our U.K. subsidiary and Canadian subsidiaries are translated into U.S. dollars for consolidation. The effect of foreign exchange rate fluctuation for the quarter ended March 31, 2005 was not material.

ITEM 4. CONTROLS AND PROCEDURES

Restatement of Quarterly Financial Statements

Subsequent to the issuance of our March 31, 2005 financial statements, we discovered an error in the calculation of share-based compensation expense in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," related to the recognition of share-based compensation expense for awards subject to acceleration of vesting for retirement eligible employees. Prior to the adoption of SFAS No. 123(R) on January 1, 2005, we accounted for share-based compensation expense under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and followed the accepted practice of recognizing share-based compensation expense over the explicit vesting period. SFAS No. 123(R) requires the immediate recognition at the grant date of the full share-based compensation expense for grants to retirement eligible employees, as the explicit vesting period is non-substantive. Upon adoption of SFAS No. 123(R) on January 1, 2005, we continued to follow the practice of recognizing share-based compensation expense over the explicit service period in error. The error resulted in a \$1.1 million understatement of share-based compensation expense in the quarterly period ended March 31, 2005 (see Note 2 of the "Notes to Consolidated Financial Statements"). The restatement reflects adjustments, which are corrections of errors in the application of U.S. generally accepted accounting principles (GAAP) related to our early adoption of SFAS No. 123(R) for the non-substantive vesting period conditions for retirement eligible employees.

Disclosure controls and procedures

We are responsible for maintaining disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, (the "Exchange Act") as amended, that are designed to ensure that information required to be disclosed in the Company's filings under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the restatement described above, under the direction of our CEO and CFO, we reevaluated our disclosure controls and procedures and identified a material weakness in our internal control over financial reporting with respect to the accounting for share-based compensation expense for the non-substantive vesting period conditions under SFAS No. 123(R).

As a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of March 31, 2005.

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Changes in internal control / remediation of material weakness in internal control

We are confident that, as of the date of this filing, we have fully remediated the material weakness in our internal control over financial reporting with respect to accounting for share-based compensation expense under SFAS No. 123(R). The remediation actions included enhancing the process used to prepare and review the calculation of share-based compensation expense under the provisions of SFAS No. 123(R) and strengthening our internal process to analyze and interpret new accounting pronouncements and related interpretations.

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In connection with this amended Form 10-Q/A, under the direction of our CEO and CFO, we have evaluated our disclosure controls and procedures as currently in effect, including the remedial action discussed above, and we have concluded that, as of this date, our disclosure controls and procedures are effective.

During our evaluation of the effectiveness of the design and operation of internal control over financial reporting as of December 31, 2004, management identified certain significant deficiencies, as defined in Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements." Two significant deficiencies related to the maintenance of documentation and the validation of the accuracy of certain components of our sales compensation program. Management is implementing enhancements to its sales compensation processes and we anticipate that these deficiencies will be remediated in the third quarter of 2005. Two significant deficiencies related to the timing of certain billing and invoice adjustment activities. Management is implementing procedures to refine its processes surrounding these items. One significant deficiency related to an immaterial unreconciled difference in accounts receivable arising during the transition to our ERP system, which will be remediated in the second quarter of 2005.

We implemented an ERP system in the fourth quarter of 2003 and as a result, we remain in a period of stabilization and clean up. During this period, we are refining our procedures surrounding order management and fulfillment, billing, cash application, service management, sales compensation and collections, and the controls surrounding processing in these areas have been adjusted accordingly. For additional details, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors that Could Cause Results to Vary."

Other than the subsequent remedial action described above, there have been no changes in the company's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In connection with the Distribution, we agreed to assume all liabilities associated with our business, and to indemnify Pitney Bowes for all claims

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relating to our business. In the normal course of business, we have been party to occasional lawsuits relating to our business. These may involve litigation or other claims by or against Pitney Bowes or Imagistics relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property matters, equipment, service or payment disputes with customers, bankruptcy preference claims and disputes with employees.

We have not recorded liabilities for loss contingencies since the ultimate resolutions of the legal matters cannot be determined and a minimum cost or amount of loss cannot be reasonably estimated. In our opinion, none of these proceedings, individually or in the aggregate, should have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information with respect to the purchase of shares of our common stock under the stock buyback program during each month in the first quarter of 2005, which includes shares repurchased in connection with tax withholdings on restricted stock:

(Dollars in thousands, except per share data)

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicl announced plan |
|--------------------------------------|--|---------------------------------|---|
| January 1, 2005 - January 31, 2005 | 124,364 | \$ 32.40 | 124,364 |
| February 1, 2005 - February 28, 2005 | -- | \$ -- | -- |
| March 1, 2005 - March 31, 2005 | 19,000 | \$ 34.47 | 19,000 |
| Total | 143,364 ===== | \$ 32.67 | 143,364 ===== |

In March 2002, the Board of Directors approved a \$30.0 million stock buyback program. In October 2002, the Board of Directors authorized the repurchase of an additional \$28.0 million of our stock, raising the total authorization to \$58.0 million. In July 2003, the Board of Directors authorized the repurchase of an additional \$20.0 million of our stock, raising the total authorization to \$78.0 million. In May 2004, the Board of Directors authorized the repurchase of an additional \$30.0 million of our stock, raising the total authorization to \$108.0 million and, as of March 31, 2005, we have accumulated approximately 4.0 million shares of treasury stock at a cost of approximately \$93.5 million. The stock buyback program has no fixed termination date.

ITEM 6. EXHIBITS

The following documents are filed as exhibits hereto:

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---|
| 3.1 | Amended and Restated Certificate of Incorporation (3) |
| 3.2 | Amended and Restated Bylaws (1) |

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- 3.3 Certificate of Designation of Series A Junior Participating Preferred Stock, dated August 1, 2002 (6)
- 4.1 Form of Imagistics International Inc. Common Stock Certificate (1)
- 10.1 Tax Separation Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3)
- 10.2 Transition Services Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3)
- 10.3 Distribution Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3)
- 10.4 Intellectual Property Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3)
- 10.5 Reseller Agreement between Pitney Bowes Management Services and Imagistics International Inc. (3)
- 10.6 Reseller Agreement between Pitney Bowes of Canada and Imagistics International Inc. (3)
- 10.7 Vendor Financing Agreement between Pitney Bowes Credit Corporation and Imagistics International Inc. (3)
- 10.8 Form of Sublease Agreement between Pitney Bowes Inc. and Imagistics International Inc. (2)
- 10.9 Form of Sublease and License Agreement between Pitney Bowes Inc. and Imagistics International Inc. (2)
- 10.10 Form of Assignment and Novation Agreement between Pitney Bowes Inc. and Imagistics International Inc. (2)
- 10.11 Imagistics International Inc. 2001 Stock Plan (1)
- 10.12 Imagistics International Inc. Key Employees' Incentive Plan (3)
- 10.13 Imagistics International Inc. Non-Employee Directors' Stock Plan (1)
- 10.14 Letter Agreement between Pitney Bowes Inc. and Marc C. Breslawsky (1)
- 10.15 Letter Agreement between Pitney Bowes Inc. and Joseph D. Skrzypczak (1)
- 10.16 Letter Agreement between Pitney Bowes Inc. and Mark S. Flynn (1)
- 10.17 Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent (3)
- 10.18 Rights Agreement between Imagistics International Inc. and EquiServe Trust Company, N.A. (3)
- 10.19 Employment Agreement between Imagistics International Inc. and Marc

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- C. Breslawsky (3)
- 10.20 Employment Agreement between Imagistics International Inc. and Joseph D. Skrzypczak (3)
- 10.21 Employment Agreement between Imagistics International Inc. and Christine B. Allen (3)
- 10.22 Employment Agreement between Imagistics International Inc. and John C. Chillock (3)
- 10.23 Employment Agreement between Imagistics International Inc. and Chris C. Dewart (3)
- 10.24 Employment Agreement between Imagistics International Inc. and Mark S. Flynn (3)
- 10.25 Employment Agreement between Imagistics International Inc. and Nathaniel M. Gifford (3)
- 10.26 Employment Agreement between Imagistics International Inc. and Joseph W. Higgins (3)
- 10.27 Amendment No. 1 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent, and the Lenders identified therein (4)
- 10.28 Amendment No. 2 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent, and the Lenders identified therein (5)
- 10.29 First Amendment to Imagistics International Inc. 2001 Stock Plan (6)
- 10.30 First Amendment to Rights Agreement between Imagistics International Inc. and EquiServe Trust Company, N.A. (6)
- 10.31 Amendment No. 3 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent, and the Lenders identified therein (7)
- 10.32 Amendment No. 1 to Transition Services Agreement between Pitney Bowes Inc. and Imagistics International Inc. (8)
- 10.33 Amendment No. 4 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent, and the Lenders identified therein (9)
- 10.34 Reseller Agreement between Pitney Bowes of Canada Ltd. and Imagistics International Inc. (10)
- 10.35 Amendment No. 5 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent, and the Lenders identified therein (11)
- 10.36 Amendment No. 6 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as

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Administrative Agent, and the Lenders identified therein (12)

- 10.37 Second Amendment to the Imagistics International Inc. Employee Stock Purchase Plan (13)
- 10.38 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Marc C. Breslawsky (14)
- 10.39 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Joseph D. Skrzypczak (14)
- 10.40 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Christine B. Allen (14)
- 10.41 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and John C. Chillock (14)
- 10.42 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and George E. Clark (14)
- 10.43 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Timothy E. Coyne (14)
- 10.44 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Chris C. Dewart (14)
- 10.45 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Mark S. Flynn (14)
- 10.46 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and Nathaniel M. Gifford (14)
- 10.47 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and William H. Midgley (14)
- 10.47 Employment Agreement dated as of January 8, 2005 between Imagistics International Inc. and John R. Reilly (14)
- 10.48 Form of Non-Qualified Stock Option Award Agreement to 2001 Stock Plan (14)
- 10.49 Form of Restricted Stock Award Agreement to 2001 Stock Plan (14)
- 10.50 Amendment to the Imagistics International Inc. Non-Employee Directors' Stock Plan (15)
- 10.51 Form of Non-Employee Directors' Stock Plan Agreement to 2001 Stock Plan (15)
- 10.52 Amendment No. 7 to Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent, Bank of America, as Administrative Agent, and the Lenders identified therein

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- 31.1 Certification of the Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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- 31.2 Certification of the Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference to Amendment No. 1 to the Registrant's Form 10 filed July 13, 2001.
 - (2) Incorporated by reference to Amendment No. 2 to the Registrant's Form 10 filed August 13, 2001.
 - (3) Incorporated by reference to the Registrant's Form 10-K filed March 28, 2002.
 - (4) Incorporated by reference to the Registrant's Form 10-Q filed May 14, 2002.
 - (5) Incorporated by reference to the Registrant's Form 8-K filed July 23, 2002.
 - (6) Incorporated by reference to the Registrant's Form 10-Q filed August 14, 2002.
 - (7) Incorporated by reference to the Registrant's Form 8-K filed March 7, 2003.
 - (8) Incorporated by reference to the Registrant's Form 10-K filed March 28, 2003.
 - (9) Incorporated by reference to the Registrant's Form 8-K filed May 21, 2003.
 - (10) Incorporated by reference to the Registrant's Form 10-K filed March 12, 2004.
 - (11) Incorporated by reference to the Registrant's Form 10-Q filed May 10, 2004.
 - (12) Incorporated by reference to the Registrant's Form 10-Q filed August 3, 2004.
 - (13) Incorporated by reference to the Registrant's Form 10-Q filed November 9, 2004.
 - (14) Incorporated by reference to the Registrant's Form 8-K filed January 13, 2005.
 - (15) Incorporated by reference to the Registrant's Form 10-K filed March 10, 2005.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Date: June 17, 2005

Imagistics International Inc.

(Registrant)

By /s/ Timothy E. Coyne

Name: Timothy E. Coyne
Title: Chief Financial Officer
and Authorized Signatory

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